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UNCLAS SECTION 01 OF 02 SAO PAULO 001795

SIPDIS

SENSITIVE

NSC FOR MIKE DEMPSEY

DEPARTMENT ALSO FOR WHA/PD

E.O. 12958: N/A
TAGS: PGOV ETRD EINV BR
SUBJECT: GOVERNOR ALCKMIN LAUDS RESULTS OF MUNICIPAL ELECTIONS; TELLS AMBASSADOR 2006 PRESIDENTIAL RACE WILL BE BETWEEN PT AND PSDB

REF: A) Sao Paulo 1541; B) Sao Paulo 1659

¶1. (SBU) SUMMARY. Sao Paulo Governor Geraldo Alckmin told the Ambassador during a December 14 courtesy call that he was confident the country was on good economic and political footing, and said he expected continued healthy growth in GDP and exports in both the state and Brazil during 2005. Alckmin noted the importance of foreign direct investment (FDI) to the Sao Paulo state economy, citing U.S. firms and the AmCham in particular as good partners. The Governor expressed satisfaction with the outcome of the recent municipal elections, suggesting that the gains by opposition parties were good for democratic balance in Brazil. He predicted that the 2006 presidential election would end up as a race between the PT and the PSDB, the principal opposition party. Alckmin concurred with the Ambassador that conclusion of the FTAA negotiations was important, and expressed reservations about the GOB's decision to grant market economy status to China. End Summary.

¶2. (SBU) During Ambassador Danilovich's December 14 call on him, Sao Paulo Governor Geraldo Alckmin stressed his interest in maintaining an active partnership with the U.S. business community and with the USG. He said that investment by U.S. and other multinational firms was essential to ensuring economic growth and employment in the state. He noted that the Sao Paulo AmCham was an important partner, and that he receives representatives of U.S. businesses doing business, or interested in doing business, in the state nearly every day. He noted that the state government had recently signed an agreement with Ford under which Ford would reinvest about USD 300 million in state sales tax (ICMS) rebates on exported products to modernize its production plants in Taubate and Sao Bernardo dos Campos, Sao Paulo.

¶3. (SBU) Alckmin expressed confidence that Brazil's export-led economic recovery would continue into 2005. He noted that Brazil had enjoyed a 31% increase in export sales during 2004, while exports from Sao Paulo state had grown by nearly 37%. He also noted that while the overall Brazilian economy had expanded by 5% during 2004, the state had seen 7% growth. He praised Finance Minister Palocci's macro-economic management, and said he expected healthy stable growth to continue next year.

¶4. (SBU) Turning to the results of the October municipal elections, Alckmin said that the outcome was good for democratic balance in the country. He said that the Brazilian electorate had been wise to avoid concentrating power in the hands of one or two political parties. In 2002, the electorate gave the federal government to the Workers Party (PT) of President Lula, but did not elect PT governments to any large states. Now the electorate had "taken the major cities away" from the PT as well, ensuring a good balance of power. He suggested that the outcome of the municipal elections reflected voter unhappiness with the PT model of government, which he said was too centralized and authoritarian. He noted that Lula had 36 Cabinet ministers, "too many" in Alckmin's estimation. The Fernando Henrique Cardoso (PSDB) government had been more open than the Lula government, he claimed. Alckmin noted that his own party, the PSDB, had done well in the municipal elections, in particular in Sao Paulo state. (See ref A). At the national level, the PSDB, he said, was a constructive opposition, and supported many of the important reforms supported by the Lula government.

¶5. (SBU) Alckmin predicted that the 2006 presidential election would end up as a face off against the PT and the PSDB, though he avoided any mention of who the PSDB standard-bearer would be. (Comment. Alckmin is widely seen as a likely frontrunner for the PSDB presidential nomination, though he always attempted to deflect such speculation in his public statements, suggesting that it is "too early" to speculate on the composition of the 2006 race. End Comment.) He said that the first round of the 2006 election would be "all about Lula," who would undoubtedly make it

into the second round, but was not "unbeatable" in the second round.

¶6. (SBU) On trade, Alckmin agreed with the Ambassador that progress on negotiating the Free Trade of the Americas (FTAA) agreement was essential. He noted that Brazil needed to take advantage of the benefits a hemispheric trade agreement could bring, acknowledging that the U.S. was Brazil's largest trading partner. Alckmin expressed reservations about the GOB's recent decision to grant China market economy status; it was too soon for such recognitions. He added that the Sao Paulo private sector was "preoccupied" with the decision, which it fears will result in unfair competition from Chinese products dumped on the Brazilian market. (Comment. We have heard similar comments directly from private sector contacts; ref B. End comment.) He added that as Brazil's third largest export destination, China was also an important trading partner.

¶7. (SBU) Comment. Governor Alckmin was very relaxed and forthcoming, stressing the importance he places on partnership with the private sector, both local and multinational. Notably, while he credited the Lula government for good macro-economic management, he also suggested that the PSDB would have a reasonable shot at regaining the Presidency in 2006. End Comment.

¶8. This cable was coordinated with Embassy Brasilia.

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